

MINUTE ITEM

3/11/66

4. APPROVAL OF LYBRAND, ROSS BROTHERS AND MONTGOMERY, CERTIFIED PUBLIC ACCOUNTANTS, TO STUDY THE STATE LANDS DIVISION AUDIT FUNCTION AND RECOMMEND IMPROVED PROCEDURES AND WORK MEASUREMENTS.

After consideration of Calendar Item 4 attached, and upon motion duly made and unanimously carried, the following resolution was adopted:

THE EXECUTIVE OFFICER IS AUTHORIZED TO EXECUTE A CONTRACT WITH LYBRAND, ROSS BROTHERS AND MONTGOMERY, CERTIFIED PUBLIC ACCOUNTANTS, ON BEHALF OF THE STATE LANDS COMMISSION AS CONTRACTOR, PROVIDING FOR AN INDEPENDENT STUDY OF THE AUDITING PROGRAM AND RESPONSIBILITIES OF THE STATE LANDS DIVISION AS SET FORTH IN THAT COMPANY'S BID PROPOSAL OF FEBRUARY 21, 1966. THE MAXIMUM AMOUNT OF THE CONTRACT IS NOT TO EXCEED \$10,500.

Attachment.

Calendar Item 4 (3 pages)

4.

APPROVAL OF LYBRAND, ROSS BROTHERS AND MONTGOMERY, CERTIFIED PUBLIC ACCOUNTANTS, TO STUDY THE STATE LANDS DIVISION AUDITING FUNCTION AND RECOMMEND IMPROVED PROCEDURES AND WORK MEASUREMENTS.

Necessity for Independent Study

Three factors indicate this course of action is required.

1. Increased emphasis on net profit interest contracts
 - a. These contracts require a more diversified approach to auditing than royalty contracts. The approach is more akin to practices found in public accounting rather than governmental auditing.
2. Cooperation in a joint venture such as the oil development in the City of Long Beach requires the closest coordination of auditing effort to prevent needless duplication while still protecting all parties interests.
3. An independent survey in depth has never been made of the whole State Lands Division auditing function. In addition, such study would be timely because the supervisor of the audit section retired on January, 1966, and the position has not been filled.

Action Taken to Date on the Independent Study

On January 19, 1966 letters were mailed to the following certified public accounting firms requesting bid proposals:

1. Lybrand, Ross Brothers & Montgomery
2. Arthur Young & Company
3. Price, Waterhouse & Company
4. Arthur Andersen & Company

All four companies responded immediately requesting interviews. Interviews were concluded with representatives of each firm by February 17, 1966 and proposals were received on March 2, 1966 from all four firms.

The four firms were chosen for circularization because among them they audit a majority of the large oil companies of the United States.

The timetable adopted calls for award of contract by April 1, 1966 with work to begin immediately and conclude by July 1, 1966 with frequent progress report meetings.

CALENDAR ITEM 4. (CONTD.)

Time and Cost Considerations

Preliminary to circularizing the independent firms, the detailed objectives and scope of the study were set down. These were reviewed by Mr. Kenneth Blankenburg, Chief of Accounting Systems for the Department of General Services and by Mr. D. Dale Hanner, Chief of Audits Division of the Department of Finance. From these reviews, it was determined that the cost would approximate \$8,500 to \$12,500.

Recommendations and Reasons

The bid proposals were judged on the following basis:

1. Completeness of detail of the intended approach
2. Degree to which proposal conforms to objectives of study
3. Precision in setting forth firm's personnel to be involved and their qualifications
4. Precision in outlining cost of services and items covered
5. Experience and qualifications of the firm

In addition to the above items, weight was given to the interest of the various firms in the problems of the division as displayed in the pre-proposal conferences.

It is recommended that Lybrand, Ross Brothers and Montgomery be awarded the contract for the following reasons:

1. The statement of objectives indicates a good comprehension of the problems faced. The approach is logically developed and should present concrete results. The approach was detailed quite adequately.
2. The survey intended would encompass not only the narrow auditing function but all activities of the division having relation to the verification of revenue such as gauging.
3. Their proposal emphasizes the fact that not only will recommendations be made but a program developed for implementing them together with a proposed timetable.
4. The fee which is precisely stated (\$10,500) comes closest to the allowable State contract maximums and includes provision for two post-study conferences or hearings to be attended by a partner and a staff member.
5. Detailed biographies were presented for staff members designated to handle the assignment in the bid proposal booklet.

CALENDAR ITEM 4. (CONTD.)

The partner who will probably head the study has had auditing and financial experience for five years in a position of leadership with an oil company as well as extensive managerial experience in other segments of private industry. He has published several articles on auditing in professional journals. The prospectus indicates that if any substitution should be made it would be with a staff member of equal or higher competence.

Most of the other proposals received were of consistently high quality. In one instance a very detailed and well presented approach fell short of consideration by lack of precision on target dates, rates far in excess of State maximums, and a total cost of their basic study of from $1\frac{1}{2}$ to $2\frac{1}{2}$ times the budgeted amount. Their proposed basic study did not comprehend completion of all the major points contained in our original letter requesting bids. These points were contained in additional cost phases.

Another proposal set forth a good work plan within budgeted funds. They did not offer quite the degree of specificity that Lybrand, Ross Brothers and Montgomery offered. They also did not offer the post-study follow-up emphasis. While they did have, as a firm, wide experience with oil companies, their proposed study leader was a partner with all of his experience in a public accounting firm only and no managerial experience in private industry. While this company has had experience in working for the State whereas Lybrand, Ross Brothers and Montgomery has not, it is felt that the other factors noted outweigh this consideration.

The remaining proposal was significantly less specific both as to approach, time schedule and cost matters. The charge rates were above maximum allowable State rates.

IT IS RECOMMENDED THAT THE EXECUTIVE OFFICER BE AUTHORIZED TO EXECUTE A CONTRACT WITH LYBRAND, ROSS BROTHERS AND MONTGOMERY, CERTIFIED PUBLIC ACCOUNTANTS, ON BEHALF OF THE STATE LANDS COMMISSION AS CONTRACTOR, PROVIDING FOR AN INDEPENDENT STUDY OF THE AUDITING PROGRAM AND RESPONSIBILITIES OF THE STATE LANDS DIVISION AS SET FORTH IN THAT COMPANY'S BID PROPOSAL OF FEBRUARY 21, 1966. THE MAXIMUM AMOUNT OF THE CONTRACT IS NOT TO EXCEED \$10,500.